Press Release

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M&A market down, but hardly out, in the first half of 2022; private equity and technology demand fuel deals

- Merger and acquisition (M&A) activity in the first half of 2022 resets to pre-pandemic levels of approximately 25,000 deals.
- With inflation in many countries hitting a 40-year high, dealmakers are quickly adapting their traditional approaches to valuations.
- Private equity (PE) now accounts for almost 50 percent of all deal value, double the level from just five years ago as capital raised for investment reaches a record $2.3 trillion
- Over a third of deal value is invested in technology, media and telecommunications (TMT), reflecting the impact of digital transformation in driving deals

Vietnam 14 July 2022 – M&A activity has slowed from its record-setting 2021 pace, with economic headwinds stunting deals in the first half of 2022. However, activity has merely returned to 2019 levels and dealmaking is expected to play an important role in corporate growth strategies over the next six months, according to PwC's Global M&A Industry Trends: 2022 Mid-Year Update.

At the start of 2022, dealmakers were riding high from the best year on record for global M&A, with more than 60,000 publicly disclosed deals breaking US$5tn in value for the first time. Fast-forward to mid-year, the M&A activities continue to prosper despite the headwinds have grown stronger and new ones have emerged, including rapidly accelerating inflation and interest rates, lower stock prices, and an energy crisis deepened by the Russia–Ukraine conflict.

Many of the factors that underpinned the record-breaking M&A market in late 2021 and the first half of 2022 – such as supply chain resilience, portfolio optimisation, environmental, social and governance (ESG) and, above all, the need for technology to digitalise business models – will remain influential for deal-making in the second half of 2022. But the approach to how these deals are done will require a new focus in an uncertain economic environment.

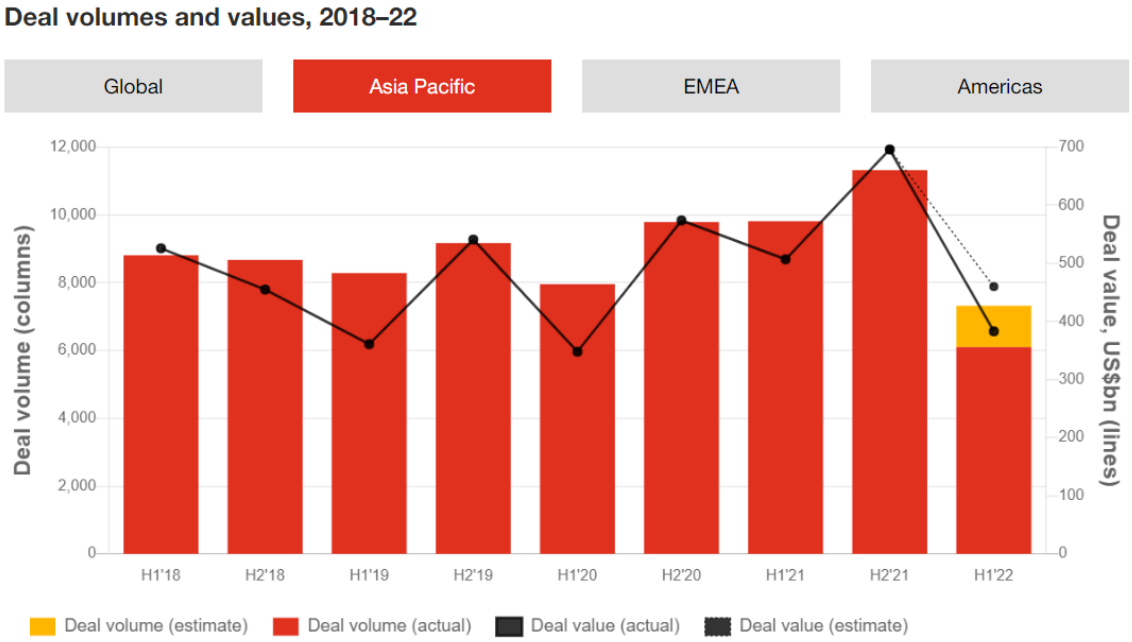
With inflation in many countries hitting a 40-year high, dealmakers will need to approach due diligence with a different lens – forecasting different inflation scenarios and considering implications on market share, price elasticity, customer and supplier relationships, and employee compensation and retention.

Workforce strategy will need to be a priority in any deal as the highest wage inflation in decades, the "Great Resignation", skills shortages, and growing stakeholder focus on diversity and inclusion will all impact future business performance.

M&A trends in the first half of 2022

Although M&A activity has slowed in the first half of 2022, it has merely reset to pre-pandemic levels, which averaged around 25,000 deals per half of the calendar year.

The M&A reset is being experienced across all major regions. Asia Pacific has experienced the largest declines, with deal volume and value each more than 30% below the 2021 peak, due mainly to macroeconomic headwinds and recent pandemic-related restrictions imposed across several major cities in China.



Deal volumes and values in Asia Pacific declined by more than 30% in H1'22

M&A values have also fallen back to similar levels to before the pandemic and deal values in the first half of 2022 of approximately $2 trillion are almost double those recorded in the first half of 2020–a period which also experienced high levels of uncertainty around economic conditions. The overall number of megadeals globally (deals with a value in excess of US$5bn) has declined by a third. However, the first half of 2022 wasn't entirely devoid of large deals–in fact there were four deals with deal values in excess of US$50bn, compared to just one deal in the whole of 2021.

PE expands its share of representation in deal volumes and values

The evolution of the PE model has made it an engine for M&A – providing a plentiful source of deal-making capital. Global PE "dry powder" reached a record $2.3 trillion in June 2022 – triple the amount which existed at the beginning of the global financial crisis. This growth in capital explains why PE's share of M&A has increased from approximately one-third of total deal value five years ago, to almost half of total deal value today.

But PE is not immune from the market volatility and growing uncertainty. Although PE investment has grown, rising inflation and interest rates have made it significantly harder to generate returns. We expect PEs to make greater use of cloud technologies and data-driven insights to both speed up and better inform their deal processes, and to broaden their investment profile in new sectors and asset classes in their search for returns.

Industry M&A trends

Current macroeconomic factors and trends are seen impacting deal-making across industries in different ways:

- **Technology, media and telecommunications (TMT):** Digital adoption of new technologies remains a priority – keeping TMT on top in terms of M&A investment, accounting for over one quarter of deal volume and one third of deal value in the first half of 2022. We expect technology demand will create M&A opportunities in software and in infrastructure-enabling technologies (such as 5G, data centres and the metaverse and its associated technologies) in the second half of 2022.

- **Financial services (FS):** The FS industry's need for digital capabilities, combined with sustained pressure from regulators and disruption from platforms and fintechs, means M&A will continue to be a driver for transformation. It also explains why FS is second only to TMT in terms of M&A investment, accounting for almost one quarter of deal value in the first half of 2022. A continued focus on technology, the growing demand for sustainable investment options, and lower valuations will keep M&A activity high during the second half of the year.

- **Consumer markets:** M&A activity in the consumer markets industry for the next six months will be closely tied to how the uncertain economic outlook will impact consumer confidence and spending. Changing consumer preferences will continue to create opportunities for M&A as companies seek to transform business models and reposition themselves for future growth.

- **Industrial manufacturing and automotive (IM&A):** The continuing focus on technology and digitizing business models, investing in supply chains and workforce will create opportunities for M&A in IM&A.

- **Energy, utilities and resources (EU&R):** The continuing acceleration of the energy transition and a growing focus on supply chain security will drive M&A in the areas of critical minerals and national energy supply in the second half of 2022.

- **Health industries:** High demand for biotechs and innovative new technologies – such as mRNA, gene therapy, and telehealth capabilities are attracting investor interest. To achieve inorganic growth goals, big pharma will likely undertake a higher number of smaller transactions to avoid the regulatory scrutiny and complexity which larger deals can bring.

Tiong Hooi Ong, Advisory, Partner, PwC Vietnam said: "Despite macroeconomic headwinds, 2022 will be another robust year for M&A transactions in Vietnam. M&A activities continue to attract a lot of attention from foreign investment funds. We're seeing an acceleration of strategic decisions to enhance portfolio optimisation, as dealmakers divest to free up capital to focus on acquiring capabilities and transforming core business areas through M&A.

Vietnam's economic recovery remains strong with GDP growth for 2022 forecasted at 6.5%, much higher than the growth forecast for the Asia Pacific region at 4.4%. In addition, with the supportive regulations and policies for the investors, the second half of 2022 is providing an opportunity for dealmakers to reassess strategy and act boldly. Dealmakers are adapting to a new business climate. In which, short-term volatility in financial markets, inflationary pressures, rapidly rising interest rates, supply chain disruptions and geopolitical tensions all appear to be developing into longer-term trends. That is the time for true leaders and best-in-class dealmakers to make bold moves and set the stage for the next five years, winning the targets that matter most to their business or portfolio. M&A could be the way to pursue opportunities that deliver value in a challenging economy."

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Notes

PwC's Global M&A Industry Trends is a semi-annual analysis of global deals activity across six industries — consumer markets (CM), energy, utilities and resources (EU&R), financial services (FS), health industries (HI), industrial manufacturing and automotive (IM&A), and technology, media and telecommunications (TMT).

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